National Flood Observer

Summer 2010

A Quarterly Newsletter from LPS National Flood

A 'Climate' of REFORM

Some might dispute "Climate Change", but it's hard to deny that a "Climate of Reform" has permeated Washington. Seldom in our nation's history has REFORM been considered, debated and enacted as it has in 2010. Reforming the **National Flood Insurance Program** is much smaller in scale when compared to health care and financial regulatory reform, but its impact on flood service providers, lenders, servicers and insurers could be quite significant.

The Financial Services Committee Chairman Barney Frank (D-MA) **introduced** the Stable Flood Insurance Authorization Act of 2010 (H.R. 5255) on May 7 which is the second piece of a two-pronged approach to assure continuity and stability in the National Flood Insurance Program (NFIP). The Committee's first step took place at an April 27, 2010 markup where the Committee unanimously endorsed Congresswoman Maxine Waters' (D-CA) comprehensive NFIP reform bill, the Flood Insurance Reform Priorities Act of 2010 (H.R. 5114).

As the second step in this process, Chairman Frank introduced legislation, extending the NFIP's authority to write and renew flood insurance policies from its latest May 31, 2010 deadline through September 30, 2010.

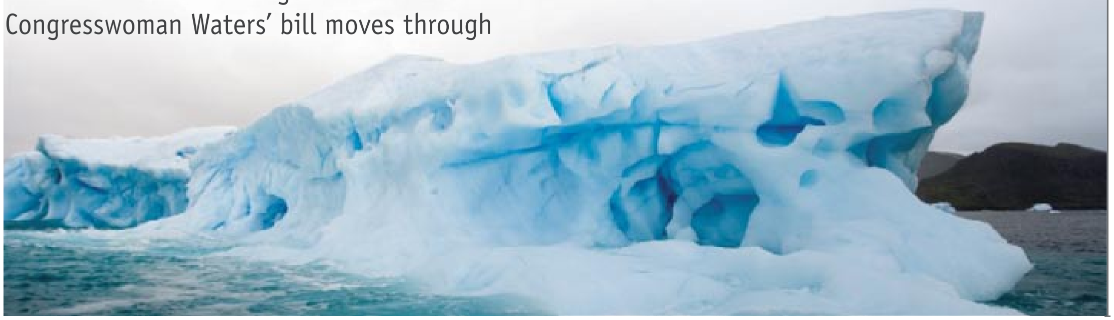
Chairman Frank's bill is meant to ensure the continued functioning of the NFIP and reassure the housing market while Congresswoman Waters' bill moves through the legislative process. Chairman Frank and Congresswoman Waters are hopeful that the full House will take up both NFIP reform and reauthorization bills and that the Senate will act promptly to assure the continuity of the NFIP program, add stability to the housing market and provide much needed, comprehensive reform and long-term reauthorization of the NFIP.

A few of the proposed provisions include:

- Extending the NFIP's authority to Sept. 30, 2010
- Increase the maximum coverage limits for flood insurance policies to $335,000 for residences, $670,000 for non-residential properties and $135,000 for contents
- A significant and controversial provision to delay the mandatory flood insurance purchase requirement for areas newly designated as Special Flood Hazard Areas (HR 5255 calls for a 3 year delay, HR 5114 calls for a 5 year delay)
- Increased lender fines for non-compliance

For an analysis of the Flood Insurance Reform Priorities Act of 2010, please visit: **https://www.lpsnationalflood.com/pdfs/2010_Proposed_Flood_Insurance_Legislation.pdf**

One should note that the legislation has only been introduced. The bill in its final form, if and when it's passed, might look quite different. We will keep you apprised.



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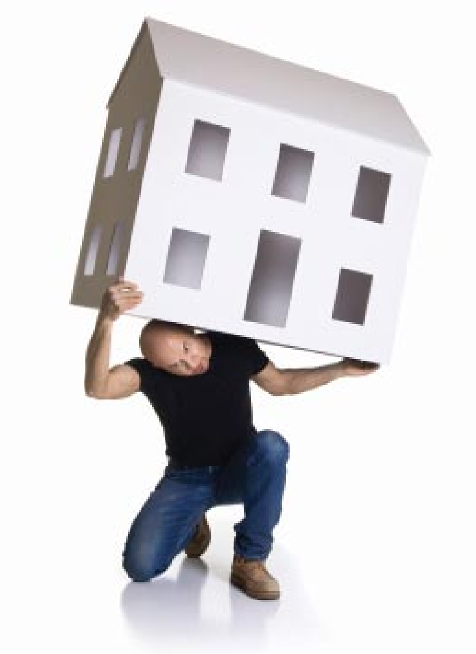
Proposed Program to Ease Financial Burden of Insurance for Some Homeowners



FEMA's Flood Map Modernization Program has produced thousands of revised Flood Insurance Rate Maps (FIRMs) over the past six years, impacting homeowners across the United States as new and adjusted flood hazards are revealed. One result of the extensive remapping effort is the mandated purchase of flood insurance for mortgage holders who are newly included in Special Flood Hazard Areas (SFHAs). In 2009 alone, more than 29 million properties with mortgages were impacted by FIRM updates, over 402,000 of which were newly identified as being "IN" an SFHA and requiring insurance.*

New flood insurance requirements are creating widespread objections from homeowners who have not previously needed to purchase insurance and/or who find the prospect to be a significant financial burden. In an effort to ease this burden and help homeowners plan for the financial implications associated with the insurance purchase requirements, FEMA is proposing a policy that will allow those who are newly included in SFHAs to purchase flood insurance at a reduced, "Preferred Risk Policy" (PRP) rate for the first two policy years following a FIRM revision. The proposed program would also be retroactive to October 1, 2008, allowing those affected by flood map revisions on or after that date to receive the two-year discount at the time of policy renewal.

At first glance, the PRP Eligibility Extension policy may appear to be a reasonable solution to ease the financial impact on affected homeowners. However, there is significant concern from insurance agents, Write-Your-Own companies, lenders and flood zone determination providers as to the technological and procedural adjustments that program administration will require. There are also implications for flood zone discrepancies between the lender's flood zone data which is based on current effective flood maps and the insurance agent's flood zone data which is used for rating these cases as PRPs.

FEMA recognizes the concerns presented by stakeholders and has established a work group comprised of representatives from the lending, insurance and flood zone determination industries to discuss the implications of this proposed policy and to help shape the program for the best possible implementation. This very important work group meeting is scheduled for June 28,2010 in Washington D.C. The *National Flood Observer* will continue to track and report on any new developments related to this proposed program as they occur.

**According to the National Flood Determination Association's 2009 Member Survey.*

Major Map Revisions in 2010

The following are a few of the more significant areas that have new FEMA Flood Insurance Rate Maps (FIRMs) planned for release through Sept. 2010:

Date	Revised Community	State
6/4/2010	Middlesex	MA
6/18/2010	Fairfield	CT
7/6/2010	Middlesex	NJ
9/3/2010	Pottawatomie	OK
9/17/2010	Fairfax	VA
9/27/2010	District of Columbia	DC
9/29/2010	Bexar	TX

Guidance for Lenders During a Lapse in NFIP Authority

Most people know that recent inaction of Congress to reauthorize the National Flood Insurance Program made the NFIP unable to sell new policies, increase coverage on existing policies, or issue renewal policies from midnight March 28 to April 15. **As a result of the lapse in authority, many lenders and home-buyers were looking for guidance from FEMA.**

Since the implementation of the mandatory flood insurance purchase requirements is the responsibility of the various Federal agencies that oversee lenders, many of the agencies provided direction during this period. Each Federal Lending Regulator, Federal Agency Lender and Government Sponsored Enterprise has the responsibility to issue its own regulations to implement the statutory requirements. At the end of this article are links to various regulatory agencies' Web sites that provide informal guidance that can and should be heeded during a Program lapse.

One of the most common concerns during the last two lapses was whether a federally-regulated lender could make a designated loan if flood insurance could not be written. To the right of this article is an example of the guidance provided.

The President signed legislation that reauthorized the National Flood Insurance Program (NFIP) through May 31, 2010. However, as of June 1, 2010 the NFIP's authority lapsed once again making it prudent for lenders to review the guidance issued by their respective regulatory agencies.

Does a lapse in FEMA flood insurance authority mean that loans secured by improved real property located in special flood hazard areas may not be made by lenders?

No, it does not. Lenders are not precluded during a lapse in flood insurance authority from making loans due to a lack of NFIP flood insurance. However, flood insurance is not available under the NFIP during a lapse. During a lapse, a lender may legally make a loan to a borrower secured by improved real property in a flood hazard area without requiring the borrower to obtain flood insurance coverage. This does not mean, however, that a lender is relieved of other obligations under federal flood insurance law nor does it mean that safety and soundness considerations can be disregarded.

1. Freddie Mac: **http://www.freddiemac.com/singlefamily/news/2010/0326_flood.html**
2. Office of Thrift Supervision: **http://files.ots.treas.gov/25338.pdf**
3. Federal Reserve: **http://www.federalreserve.gov/boarddocs/caletters/2010/1003/caltr1003.htm**
4. Federal Deposit Insurance Corp: **http://www.fdic.gov/news/news/financial/2010/fil10023.html**
5. Office of Comptroller of Currency: **http://www.occ.treas.gov/ftp/advisory/2002-11.doc**

Fight Fraud with LPS’ Fraud Prevention Tools

...servicers can turn to LPS for the mortgage industry’s most comprehensive solution for combating mortgage fraud and managing risk.

As the volume of modification and refinances increase exponentially, servicers are simultaneously faced with the pressure to turn them around faster in an effort to keep people in their homes. Unfortunately, the risk for fraudulent loan submissions remains high, and rushing through these tedious processes only increases the threat to your balance sheet.

With the recent acquisition of Verification Bureau, servicers can turn to LPS for the mortgage industry’s most comprehensive solution for combating mortgage fraud and managing risk. LPS now delivers automated, Web-based solutions to quickly verify applicant income, identity and employment against Internal Revenue Service (IRS), Social Security Administration (SSA) and Payroll Databases. All results are delivered through secure, convenient online accounts, and users can submit and track orders in real time.

Income Verification for Loan Modifications

LPS can expedite the retrieval of income information from the IRS, enabling servicers to process modifications faster. Servicers are required under the government’s Making Home Affordable plan to obtain a signed 4506-T IRS form. Then, if the borrower cannot provide previous tax returns or if they are questionable, the servicer can choose to execute the 4506-T IRS form. This can be tedious and labor-intensive and can delay the modification process. With LPS’ Income Verification solution, however, servicers can retrieve applicant income tax information directly from the IRS database in as little as one business day. LPS’ income verification report can also include the following:

- 1040 Personal Income Tax Returns
- 1065, 1120 business income tax returns
- W-2 and self-employed income (all sources of income)
- Verification of tax filing (income data is not disclosed)
- Record of account/transcript of account (history of transactions with LPS)

Mitigate Your Fraud Losses

Projected losses from mortgage fraud in 2009 are estimated at $6 billion. Let LPS help you mitigate your exposure to and losses from fraud while streamlining your loan processes for faster modifications. For more information on LPS’ income, identity or employment verification reports, please contact Juan Perdomo at Fraud Solutions/LSI, Lender Processing Services, Inc., Office: 904.486.3627, **juan.perdomo@lpsvcs.com**.